# Supplement to J.K. Lasser’s Small Business Taxes 2022

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The pandemic triggered numerous changes in tax law as reflected in the book. But tax law is not static and new legislation, IRS pronouncements, and court decisions continue to tweak tax rules. They impact reporting on 2021 returns as well as tax planning for 2022 and beyond.

The Infrastructure Investment and Jobs Act of 2021 was signed into law on November 15, 2021. It ended the employee retention early (on September 30, 2021, rather than December 31, 2021) for businesses other than for certain start-up businesses. It also introduced reporting requirements for digital transactions, but this begins for transactions in 2023. The Build Back Better Act failed to pass Congress before the end of 2021. Whether and to what extent it may be enacted in 2022 remains to be seen. Most provisions were not set to apply in 2021, but if there is a renewed push for legislation watch for possible changes for 2022 that may impact estimated taxes.

The changes presented in this Supplement occurred after November 1, 2021, when this book was published. The changes are listed according to the chapters in which the subject matters appear. Be sure to note which changes apply to 2021 returns and which apply for purposes of figuring 2022 estimated taxes.

## Introduction

***Forms and schedules.*** When this edition was published, final versions of forms were not yet available. Find final versions of forms and schedules [here](https://apps.irs.gov/app/picklist/list/formsPublications.html).

## Chapter 1—Business Organization

## *Schedules K-2 and K-3 for partnerships and S corporations.* These entities that have foreign activities must complete new Schedules K-2 and K-3 to report owners’ shares of income, expenses, credits, etc. from these business activities. The IRS said it won’t impose penalties for errors in these forms as long as a good faith effort is made to be correct.

The IRS won’t accept through the Modernized e-File (MeF)/Extensible Markup Language (XML) electronic filing of Schedules K-2 and K-3 of the 2021 Form 1065 until March 20, 2022, and Schedules K-2 and K-3 of the 2021 Form 1120-S until mid-June 2022. These dates may change, so check the [IRS timeframe](https://www.irs.gov/e-file-providers/schedules-k-2-and-k-3-interim-electronic-filing-for-tax-year-2021). If you electronically file Form 1065 or 1102-S with Schedules K-2 and K-3 before the applicable timeframe, submit the schedules as separate PDF files attached to the return.

## Chapter 2—Tax Year and Accounting Method

## *Change in accounting method.* Form 3115 used by a business to change its method of accounting can be filed using a digital signature even though the form cannot be filed electronically. This e-signature rule, first permitted early in the pandemic, has been extended through October 31, 2023.

## The IRS has released an [updated list](https://www.irs.gov/pub/irs-drop/rp-22-14.pdf) of automatic changes in accounting methods. The changes generally are effective for Forms 3115 filed on or after January 31, 2022, for a year of change ending on or after May 31, 2021, if filed under automatic change procedures from 2015 and later.

## Chapter 4—Income or Loss from Business Operations

***Excess business losses.*** Noncorporate taxpayers (e.g., owners of pass-through entities) are subject to a limit on the amount of losses claimed on the current return. An excess business loss is the amount by which the total deductions attributable to all of your trades or businesses exceed your total gross income and gains attributable to those trades or businesses plus a threshold amount adjusted for cost of living. For taxable years beginning in 2022, the threshold amounts are $270,000 (or $540,000 in the case of a joint return) (up from $262,000 and $524,000, respectively, in 2021).

***Income earned abroad.*** The earned income exclusion for 2022 is capped at $112,000 (up from $108,700 in 2021).

***Other limitations on business losses—basis for S corporation owners.*** Form 7203, *S Corporation Shareholder Stock and Debt Basis Limitations,* should be used to figure an owner’s basis reported on Schedule K-1 of Form 1120-S. This form replaces prior worksheets in the instructions to the K-1.

## Chapter 5—Capital Gains and Losses

***Taxable income breakpoints for capital gain rates in 2022.*** Owners of pass-through entities who are individuals pay tax on their share of capital gains. The following table (an update to Table 5.1 in the book) shows the break points for capital gain rates for 2022; this Table does **not** apply to 2021 returns.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Rate** | **Married filing jointly (and surviving spouse)** | **Head of household** | **Single** | **Married filing separately** |
| 0% | Up to $83,350 | Up to $55,800 | Up to $41,675 | Up to $41,675 |
| 15% | $83,351 - $517,200 | $55,801 - $488,500 | $41,676 - $459,750 | $41,676 - $258,600 |
| 20% | Over $517,200 | Over $488,500 | Over $459,750 | Over $258,600 |

## Chapter 7—Employee Compensation

***Worker classification.*** The [IRS has guidance](https://www.irs.gov/pub/irs-drop/rp-22-13.pdf) on when employers may challenge in Tax Court an IRS notice on worker reclassification.

The ABC test for determining whether workers are employees or independent contractors for purposes of state wage and hour rules is now used in about 20 states. However, exceptions continue to be carved out for workers in certain industries. For example, [California extended](https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202120220AB1561) the exemptions for licensed manicurists and construction trucking subcontractors through 2025.

The U.S. Department of Labor (DOL) withdrew the final rule on worker classification for purposes of the Fair Labor Standards Act, which governs minimum wage and overtime rules. As a result, the old “totality of the circumstances test” applies (see [Fact Sheet 13](https://www.dol.gov/agencies/whd/fact-sheets/13-flsa-employment-relationship)). The DOL has not proposed another rule. Nonetheless, the DOL’s definition of independent contractor does not displace the IRS standards for determining worker classification for federal income and employment tax purposes (IRS rules for worker classification are explained in Chapter 7).

***Adoption assistance.*** For planning purposes, the dollar limit on the exclusion for employer assistance for adoption costs in $14,890 for 2022 (up from $14,440 in 2021).

***Flexible spending accounts (FSAs) for medical expenses and dependent care expenses.*** For planning purposes, the maximum elective deferral for health FSAs in 2022 is $2,850 (up from $2,750 in 2021). The maximum carryover permitted from unused 2022 health FSAs to 2023 is capped at $570; the carryover applies only if the plan adopts it and does not use a grace period. Dependent care FSAs can allow a grace period but cannot have a carryover for unused 2022 amounts to 2023. For health FSAs or dependent care FSAs with a grace period, unused expenses from 2022 must be spent by March 15, 2023 (or within 21/2 months after the end of the 2022 plan year if a fiscal-year plan).

***Employee use of company car.*** For planning purposes, in valuing employee use of a company car in 2022 or for purposes of reimbursements under accountable plans, the IRS standard mileage rate is 58.5¢ per mile, up from 56¢ per mile in 2021.

The fixed and variable rate allowance (FAVR) in 2022 is limited to vehicles with a fair market value not exceeding $56,100 for cars, trucks, and vans. The limit in 2021 was $51,100.

Car and truck values taken into account by employers using the cents-per-mile valuation rule or the fleet valuation rule for valuing personal use of a company vehicle in 2022 are capped at $56,100.

***Qualified transportation fringe benefits.*** Employers cannot deduct these fringe benefits, but if they choose to provide the benefits or arrange for employees to pay for these costs on a pre-tax basis, employees can exclude up to $280 per month for free parking, transit passes, and van pooling for 2022 (up from $270 per month in 2021).

***Frequent flyer miles.*** To date, the IRS has not taken any action to tax frequent flyer miles.

***Employment-related tax credits.*** Employment tax-related credits that expired in 2021 (employee retention credit, credits for COVID-19 related paid sick leave and paid family leave, and COBRA premium assistance credit) were not extended.

***Chapter 8—Travel, Meals, and Gift Expenses***

***Business travel per diem rates.*** The standard federal per diem rate for travel starting October 1, 2020, through September 30, 2021, covering lodging and meals and incidental expenses (M&IE) within the continental United States (CONUS) in most locations is $151 per day ($96 for lodging and $55 for M&IE). These basic rates are unchanged from the prior 12-month period; 319 locations have a per diem rate exceeding the standard rate for all or part of the year. For travel starting October 1, 2021, through September 30, 2022, the rate for most CONUS locations is $155 per day ($96 for lodging and $59 for M&IE), but 319 locations have a per diem rate exceeding the standard rate for all or part of the year. These rates can be found [here](https://www.gsa.gov/travel/plan-book/per-diem-rates/fy-2022-per-diem-highlights).

The high-low substantiation rates for areas within CONUS for the period October 1, 2021, through September 30, 2022, are $296 for travel to high-cost localities and $202 for travel to all other areas within CONUS. Of these rates, the meal portion is $74 for high-cost areas and $64 for all other areas within CONUS. The list of high-cost areas has been changed (see Notice 2021-52 for details).

***Meals.*** Using a federally-set per diem rate to substantiate the cost of business meals is 100% deductible if the meals are provided at restaurants in 2021 and 2022.

***Chapter 9—Car Expenses***

***Section 179 deduction and bonus depreciation.*** For 2022, the first-year expense allowance (Section 179 deduction) applies to equipment purchases (e.g., new vehicles) up to $1,080,000. However, this dollar limit phases out dollar for dollar when purchases of Section 179 property for the year exceed $2,700,000. Thus, no expensing deduction can be claimed if equipment purchases for the year are $3,780,000 million or more.

Heavy SUVs are not subject to the annual dollar limits on depreciation, but the first-year expense deduction is limited to $27,000 in 2022 (up from $26,200 in 2021).

***Standard mileage rate.*** The IRS announced the standard mileage rate, used in lieu of deducting the actual costs of business driving; for 2022 it is 58.5¢ per mile (up from 56¢ per mile in 2020).

Those who own their vehicles and use the standard mileage rate for 2022 must reduce the vehicle’s basis by 26¢ per mile (the same as in 2021).

***2-wheel vehicles.*** The credit for a 2-wheel plug-in electric vehicle, which expired at the end of 2021, has not yet been extended.

## Chapter 10—Repairs, Maintenance, and Energy Improvements

***Energy-efficient commercial buildings.*** The maximum deduction for energy-efficient commercial buildings at $1.88 per square foot in 2022 (up from $1.82 in 2021) for commercial buildings that achieve at 50% energy-saving target. Those qualifying for a partial allowance may deduct $0.63 per square foot (up from $0.61 in 2021).

***Correction to page 221:*** The amounts listed in the book of $1.80 per square foot and $0.60 per square foot respectively for 2021 should have been $1.82 and $0.61 respectively.

The alternative fuel vehicle refueling property credit, which expired at the end of 2020, has not yet been extended.

## Chapter 13—Taxes and Interest

***State and local income taxes.*** The IRS said that state and local income taxes imposed on and paid by a partnership or S corporation are not subject to the SALT cap and allowed in computing non-separately stated income or loss for the entity (and passed through to the owner). Now, nearly 20 states have these workarounds, although some do not become effective until 2022 or later. Similar measures are pending in yet other states. Watch for possible changes on the federal level if the Build Back Better Act or some version of it is enacted in 2022 and whether the change would apply for 2021 returns.

***Self-employment tax.*** The Social Security wage base limit, which applies for self-employment taxes, is $147,000 in 2022 (up from $142,800 in 2021). The tax rate for the Social Security portion of self-employment tax is 12.4% on net earnings up to this dollar limit. The tax rate for the Medicare portion of self-employment tax is 2.9% on all net earnings. The tax deduction is limited to one-half of the self-employment tax.

For those with net earnings over the applicable threshold amount of $200,000 for singles and $250,000 for joint filers (these dollar limits are not adjusted annually for inflation), there is also a Medicare surtax of 0.9% on excess earnings. This applies only to the so-called employee portion, so it is *not* deductible.

***Employment taxes—FICA.*** The wage base limit for the Social Security portion of FICA in 2022 is $147,000 (up from $142,800 in 2021). The rate for the employee’s Social Security portion of FICA is unchanged at 6.2%.

***Employment taxes—FUTA tax.*** For purposes of FUTA in 2021, there are no “credit reduction states.”

***Interest expense payments.*** For 2022, “small businesses” are automatically exempt from the net interest expense limit. These are businesses with average annual gross receipts for the 3 prior years not exceeding $27 million (up from $26 million in 2021).

## Chapter 14—First-Year Expensing, Depreciation, Amortization, and Depletion

***First-year expensing.*** The expensing limit for 2022 is $1,080,000. The limit phases out when purchases for the year exceed $2,700,000. Thus, no expensing can be used if purchases for the year $3,780,000 million or more.

***Modified accelerated cost recovery system—recovery periods.*** The 3-year recovery period for racehorses 2 years or younger expired at the end of 2021 and has not yet been extended.

## Chapter 16—Retirement Plans

***Contribution limits.*** Various limits have been increased for 2022, although some are unchanged from 2021. The following apply to 2022 (not to 2021 returns):

* 401(k) plan elective deferrals: $20,500, plus $6,500 for those who are age 50 and older by December 31, 2022.
* Savings incentive match plan for employees (SIMPLE) elective deferrals: $14,000, plus $3,000 for those who are age 50 and older by December 31, 2022.
* Defined contribution plans (profit-sharing plans and simplified employee pension plans [SEPs]): the limit is $61,000 (up from $58,000 in 2021).
* Defined benefit (pension) plans: the limit is $245,000 (up from $230,000 in 2021).
* Compensation taken into account in figuring contributions and benefits: the limit is $305,000 (up from $290,000 in 2021).
* IRAs: the contribution limits for 2022 are $6,000, plus $1,000 for those age 50 or older by December 31, 2022 (both limits unchanged from 2021). However, the adjusted gross income limits for making deductible contributions for those who are active participants in qualified retirement plans have been increased slightly.

***PBGC premiums.*** For planning purposes, in 2022 the flat-rate premium for each participant is $88 (up from $86 in 2021). The variable rate premium for underfunded plans is $48 per $1,000 of unfunded benefits per employee (up from $46), with a cap of $598 per participant (up from $582).

***Plan amendments.*** The IRS intends to publish a list each year of required amendments for individually-designed retirement plans. The list for 2021 includes updates to pre-approved defined benefit plans (see Notice 2021-64). Check for the cumulative list of required amendments [here](https://www.irs.gov/pub/irs-drop/n-21-64.pdf). The required amendment deadline generally is December 31, 2023. If you use a prototype plan, which is one provided to you from the financial firm with which you maintain your plan, you will automatically receive documents reflecting plan amendments; you do not have to do anything other than retain the revised documents in your records.

## Chapter 17—Casualty and Theft Losses

***Disaster losses.*** Find a list of all federal disaster areas for 2021 from [FEMA](https://www.fema.gov/disaster/declarations). Designated disasters in 2022 will also be listed by FEMA.

The Infrastructure Investment and Jobs Act of 2021, which was signed into law on November 15, 2021, changes the definition of “disaster.”  It is defined as 34,900The definition applies to disasters occurring after November 15, 2021. The reason for the change is to ensure that taxpayers within disaster areas are covered by the automatic 60-day extension for filing returns and certain other time-sensitive tax actions.

## Chapter 19—Medical Expenses

***Small employer health care credit.*** Small employers can take this tax credit only if average annual payroll is below a set amount. This amount has been adjusted for inflation so that the full credit applies if the average annual payroll in 2022 is $28,700 (up from $27,800 in 2021).

***Qualified small employer health reimbursement arrangements (QSEHRAs).*** These reimbursement plans are a way for small employers to help employees pay for the cost of health coverage. For 2022, reimbursements to employees are capped at $5,450 for self-only coverage and $11,050 for family coverage (up from $5,300 and $10,700, respectively, in 2021).

***Health savings accounts.*** The contribution limit for 2022 increases to $3,650 for self-only coverage; the limit for family coverage increases to $7,300 (up from $3,600 and $7,200, respectively, in 2021). Those who are age 55 or older by the end of 2022 but not on Medicare can add another $1,000 for the year (this additional contribution limit is unchanged and married persons must have separate accounts to each use the additional limit).

To contribute to a health savings account, the person must be covered by a high-deductible health plan. For 2022, this means that the plan has a minimum deductible of $1,400 for self-only coverage and $2,800 for family coverage. The cap on annual out-of-pocket expenses (deductibles, co-payments, and other amounts but not premiums) cannot exceed $7,050 for self-only coverage and $14,100 for family coverage.

***Flexible spending arrangements (FSAs).*** The maximum amount that employees can add to a medical FSA in 2022 is $2,850 (up from $2,750 in 2021).

## Chapter 20—Deductions for Farmers

***Depreciation.*** The 3-year depreciation recovery period for racehorses 2 years or younger expired at the end of 2021; it has not yet been extended for 2022.

## Chapter 21—Qualified Business Income Deduction

***Taxable income threshold for 2022.*** The taxable income thresholds for the QBI deduction are:

|  |  |  |
| --- | --- | --- |
| ***Filing status*** | ***Threshold amount*** | ***Phase-in range amount*** |
| Married filing jointly | $340,100 | $440,100 |
| All other filers | $170,050 | $220,050 |

## Chapter 22—Miscellaneous Business Deductions

***Personal education incentives for 2022: Student loan interest*.** The 2022 modified adjusted gross income range over which the deduction limit of up to $2,500 of interest is phased out is $145,000 to $175,000 on a joint return; for singles it is $70,000 to $85,000. These dollar amounts for singles are unchanged; those for married filing jointly are each $5,000 higher.

Cancellation of student loan debt by most lenders is not taxable income. This rule applies through 2025.

***Legal and professional fees.*** If you win a dispute with the IRS in which the government was not substantially justified, you may be able to recover costs up to a set dollar amount. For 2022, the dollar amount is $220 per hour (up from $210 in 2021).

***Meal costs for day care providers.*** For 2022, the rates for standard meals and snack rates in all localities have increased slightly. They are:

Breakfast:

* States other than Alaska and Hawaii: $1.40
* Alaska: $2.23
* Hawaii: $1.63

Lunch and dinner:

* States other than Alaska and Hawaii: $2.63
* Alaska: $4.26
* Hawaii: $3.08

Snacks:

* States other than Alaska and Hawaii: $0.78
* Alaska: $1.27
* Hawaii: $0.91

## Chapter 23—Roundup of Tax Credits

Many tax credits expired at the end of 2021, including:

* Credit for qualified fuel cell motor vehicles.
* Alternative fuel vehicle refueling property credit.
* Credit for 2-wheeled plug-in electric drive vehicles
* Second generation biofuel producer credit.
* Production credit for Indian coal facilities.
* Energy-efficient home credit.
* Mine rescue team training credit.

Watch for legislation that may extend retroactively or make permanent these and other tax credits.

***Research credit.*** When submitting a claim for refund, it won’t be valid unless certain information is included:

* Identify all the business components to which the Section 41 research credit claim relates for that year.
* For each business component, identify all research activities performed and name the individuals who performed each research activity, as well as the information each individual sought to discover.
* Provide the total qualified employee wage expenses, total qualified supply expenses, and total qualified contract research expenses for the claim year. This may be done using Form 6765.

This requirement applies for claims submitted after January 10, 2022. However, there’s a one-year transition period during which you have 30-days to perfect a research credit refund claim (i.e., submit the necessary information), as long as this occurs before an IRS final determination.

***Employee retention credit.*** This employment tax credit was supposed to run through December 31, 2021. The Infrastructure Investment and Jobs Act retroactively terminated the credit on September 30, 2021, except for qualified start-up businesses that have the credit through the end of 2021. There is IRS guidance on this credit in [Notice 2021-49](https://www.irs.gov/pub/irs-drop/n-21-49.pdf) and Notice [2021-65](https://www.irs.gov/pub/irs-drop/n-21-65.pdf).

***Chapter 24—Income and Deduction Strategies***

***Meals deduction.*** For 2022, 100% of business meal costs are deductible, as long as the meals are provided at restaurants. This percentage also applies to the meals portion of per diem rates used by employers to substantiate cost. See Chapter 8 above.

## Chapter 26—Strategies for Opening or Closing a Business

***Shareholder basis in stock.*** New Form 7203, *S Corporation, Shareholder Stock and Debt Basis Limitation,* as the title implies, is used to figure a shareholders basis in stock and debt for purposes of determining how much of a loss that’s passed through may be claimed.

***Chapter 29—Alternative Minimum Tax***

***Exemption amounts.*** The AMT exemption amounts for 2022 are:

|  |  |
| --- | --- |
| **Filing status** | **2022 exemption** |
| Married filing jointly/surviving spouse | $118,100 |
| Single/head of household | $75,900 |
| Married filing separately | $59,050 |

*Exemption phase-out.* The exemption amounts for 2022 start to phase out when alternative minimum taxable income (AMTI) exceeds $1,079,800 for married filing jointly and surviving spouses and $539,900 for other filers.

***Chapter 30—Other Taxes***

***State income taxes.*** There have been some tax changes for businesses at the state and local levels. For example, effective January 1, 2022, there is a 2% cut in the corporate tax rate in Oklahoma. Check with state tax departments in all locations in which you do business to learn if there have been any tax changes impacting your business.

***Employment and self-employment taxes.*** The 2022 wage base limit for the Social Security tax portion of FICA and self-employment tax is $147,000 (up from $142,800 in 2021).

The [IRS has provided guidance](https://www.irs.gov/pub/irs-wd/202151005.pdf) on when net rental income for short-term rentals (e.g., 7 days) is subject to self-employment tax. If substantial services are provided, then net rental income is subject to self-employment tax. The fact that a 7-day rental is not a rental activity for purposes of the passive activity loss rules does not control for purposes of self-employment tax.

The [IRS has provided guidance](https://www.irs.gov/pub/irs-drop/rp-22-13.pdf) on challenging in Tax Court an IRS Notice of Employment Tax Determination that a worker should be treated as an employee and, if so, that Sec. 530 relief for employment tax purposes does not apply. The Tax Court will have jurisdiction over the matter if these conditions are met:

1. The IRS conducts an examination in connection with an audit of a business;
2. As part of the audit, the IRS determines that – (a) one or more individuals performing services for the business are employees of the business for purposes of worker reclassification, or (b) the business is not entitled Section 530 relief;
3. There is an “actual controversy” involving the determination as part of an examination (the worker wasn’t treated as an employee, the IRS said he/she should have been, and there’s no agreement on this matter during the audit); and
4. The person for whom the services at issue were performed files an appropriate pleading in the Tax Court.

***Sales taxes.*** A number of states have changes in sales tax rules for 2022. Check with your state finance/revenue/tax division.

Congress has not yet enacted a bar to states retroactively imposing sales tax on remote sellers. Congress has not enacted any requirement for states to have uniform sales tax rules for remote sellers.

***Chapter 31—Filing Tax Returns, Paying Taxes, and Making Refund Claims***

***Filing extensions.*** There is an automatic 60-day extension for owners and businesses within a disaster area. Regulations clarify that the IRS still has authority to provide even greater extensions. Monitor the [IRS webpage](https://www.irs.gov/newsroom/tax-relief-in-disaster-situations) on tax relief in disaster situations for the extensions related to a specific disaster.

***Paying taxes by credit card.*** As yet, the IRS does not accept payment directly through a credit card. You still need to go through an IRS-authorized credit card processor.

***Chapter 32—Retirement and Succession Planning***

***2022 limits on earnings for those working while receiving Social Security benefits.*** There is no limit on those who have attained full retirement age. For those who receive benefits and are under full retirement age, the earnings limit in 2022 is $1,630 per month ($19,560 for the year).

If earnings exceed this limit, then benefits are reduced by $1 for each $2 of excess earnings. For the year in which you reach full retirement age, the earnings

limit is $4,330 per month ($51,960 for the year). If earnings for the months prior to attaining full retirement age exceed the limit, benefits are reduced by $1 for each $3 of excess earnings.

***Chapter 33—Working with CPAs and Other Tax Professionals***

***PTINs.*** The fee charged by the IRS for a tax preparer to obtain a PTIN for the 2022 tax season is $35.95 (unchanged from the prior year). It is nonrefundable.

***Appendix A—Information Returns***

***Merchant transactions.*** For purposes of Form 1099-K, the threshold for processors to report merchant transactions by credit card, debit card, or electronic transfer is $600 in transactions in the aggregate in 2022. The number of transactions does not affect this reporting requirement.

***Appendix B—Tax Penalties***

The following penalties apply to 2022 returns required to be filed in 2023:

***Failure to file a tax return.*** The penalty is the lesser of $450 or 100% of the amount required to be shown on the return.

***Failure of a partnership to file a return.*** The penalty is $220. The penalty is per month (or part-month) that the return is late, up to a maximum of 12 months, and is multiplied by the number of partners during any part of the year.

The penalty for a failure to furnish a Schedule K-1 is $290 for each failure, up to a maximum of $3,532,500 ($1,177,500 for businesses with average annual gross receipts in the 3 most recent years of $5 million or less). The penalty is increased to $580, or, if greater, 10% of the aggregate amount of items required to be reported, if the failure is due to intentional disregard of the reporting requirement; there is no maximum annual limit.

***Failure of an S corporation to file a return.*** The penalty is $220. The penalty is per month (or part-month) that the return is late, up to a maximum of 12 months, and is multiplied by the number of shareholders during any part of the year.

The penalty for a failure to furnish a Schedule K-1 is $290 for each failure, up to a maximum of $3,532,500 ($1,177,500 for businesses with average annual gross receipts in the 3 most recent years of $5 million or less). The penalty is increased to $580, or, if greater, 10% of the aggregate amount of items required to be reported, if the failure is due to intentional disregard; there is no annual cap.

***Administrative waivers.*** To date there have been no developments on an SB/SE Division program for self-correcting errors.

***Self-correct program.*** There are still no additional details on the SB/SE Division’s program to enable small businesses and self-employed individuals to self-correct errors on their tax returns with minimal or no penalties. This proposal has been around for a couple of years with no developments.

***Appendix D—Dollar Limits and Amounts Adjusted for Inflation***

**Items Adjusted Annually for Inflation.** The following adjustments apply for 2022 (and do not factor into the preparation of 2021 returns).

***Adoption assistance***—excludable employer-provided adoption assistance

for employees ($14,890 for 2022).

***Cash method of accounting***—the gross receipts test for eligibility of C corporations and partnerships with C corporation partners to use the cash method of accounting is average annual gross receipts in the 3 prior years not exceeding a set amount ($27 million in 2022).

***Energy-efficient commercial buildings.*** The deduction for 2022 is $1.88 per square foot. The partial allowance in 2022 is $0.63 per square foot.

***Excess business losses for noncorporate taxpayers***—the threshold used in determining whether an owner of a pass-through entity has such losses is capped on their personal returns at a set amount ($540,000 for joint filers and $270,000 for other filers in 2022).

***First-year expensing (Sec. 179 deduction)***—the dollar limit on the deduction, as well as the phase-out threshold on property placed in service for 2022 are $1,080,000 and $2,700,000, respectively.

***Foreign earned income exclusion***—the amount of wages or self-employment income earned abroad eligible for the exclusion is limited ($112,000 in 2022).

***Medical flexible spending accounts (FSAs)***—the most that employees can add annually on a pretax basis is capped at $2,850 for 2022.

***Qualified business income deduction***—the taxable income limit for the 20% deduction before application of a formula is required (and a phase-out for owners in specified service trades or businesses) is $340,100 on joint returns and $170,050 for other filers in 2022.

***Small employer health insurance credit***—the amount of average compensation, originally fixed at $25,000, is $28,700 for 2022.

***Social Security wage base***—the amount that is used to figure the Social Security portion of FICA and self-employment tax ($147,000 for 2022).

***Transportation fringe benefits***—the amount excludable for free parking, and the aggregate amount excludable for transit passes or van pooling, is $280

per month in 2022.

**Items set by the IRS.** The following adjustments apply for 2022 (and do not factor into the preparation of 2021 returns):

***Deemed depreciation for business vehicles***—if the deduction for expenses for business use of a personal vehicle owned by the taxpayer is figured using the IRS’s standard mileage allowance, then the basis of the vehicle is reduced by a set amount per mile (e.g., 26¢ per mile in 2022).

***Mileage allowance***—the rate per mile used to determine the deduction for business use of a personal vehicle instead of deducting the actual costs is 58.5¢ per mile in 2022.